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SUBJECT: MADRID WEEKLY ECONOMIC UPDATE - AUGUST 18-22

REF: A. MADRID 895
[B.](#) MADRID 707

MADRID 00000921 001.2 OF 002

Contents:

ECON: Stimulus/Reform Package Approved
EFIN: Loan Delinquency Rates Up Significantly in June
EIND: Industrial Production Down in June
ECON: International Tourism Down in July
ENRG: Industry Minister Plans Significant Fine for Nuclear
Plant Leak Mishandling
EINV/ENRG: FCC Buys Babcock & Brown Wind Farms for 780M Euros

Stimulus/Reform Package Approved

[11.](#) (U) On August 18, the GOS published the list of measures agreed to in the August 14 extraordinary Council of Ministers session (ref A). The package includes 24 economic stimulus measures and structural reforms to be implemented with a specific timeline in 2009 and 2010. Many of these proposals had been previously announced (ref B), and while considered to be useful and beneficial by most, are unlikely to have an immediate impact on the economic slowdown. The measures include 20 billion euros in credit and loan guarantees line subsidies for small and medium size business and for those wishing to purchase government sponsored housing (price controlled housing meant for lower and middle income families). The package also includes measures related to energy and climate change and the transportation, telecom and services sectors. (All media, 8/18; Moncloa website, 8/18)

Loan Delinquency Rates Up Significantly in June

[12.](#) (U) According to the Bank of Spain, June delinquency levels on loans (defined as 3 months overdue) increased to a rate of 1.7 percent. While this level overall may appear low, what is striking is that it represents a significant increase from June of the year before, when the rate was 0.8 percent. Savings banks ("cajas") have been affected to a greater extent given that up to 70 percent of their loans are in some way related to the slowing housing market. According to the president of the Savings Bank Association (CECA), Juan Ramon Quintas, the average loan delinquency rate for all savings banks is expected to reach over 2 percent in 2008 and potentially over 4 percent in 2009. Comment: Second Vice President and Minister of Economy Pedro Solbes says the Spanish financial system is strong and that financial institutions in Spain have the reserves to deal with these increases. While it is true that Spain's central bank requires all banks to have higher "cushion" levels than are

required in other EU countries, the rapid increase in loan delinquency rates is still somewhat worrisome. (El País, 8/19; Expansion, 8/22)

Industrial Production Down in June

¶ 13. (U) Industrial production in June was 9% below its June 2007 level. Production for the first six months of the year was 2.8% below its level for the first half of 2007. (Cinco Dias, 8/19)

International Tourism Down in July

¶ 14. (U) The number of foreign tourists coming to Spain in July was 8% below the number in July 2007. For the year through July, the number was up only 0.2%. Spain is the world's second leading destination for international tourists. Arrivals from the UK, France, and Germany -- Spain's top three sources of tourists -- all fell significantly. Industry, Tourism, and Commerce Minister Sebastian cited economic difficulties in source countries as a leading cause for the poor summer tourism season, while others also say Spanish tourism is less competitive than it used to be. (Comment: The stronger euro might play a role in price competitiveness, both in reducing arrivals from non-Euro countries and making it more attractive for Euro-country tourists to go elsewhere.) (Expansion, 8/22; Cinco Dias, 8/20)

Industry Minister Plans Significant Fine for Nuclear Plant Leak Mishandling

¶ 15. (U) Industry, Tourism, and Commerce Minister Sebastian said his ministry would apply a significant fine, as recommended by the Consejo de Seguridad Nuclear regulatory agency, against power company Endesa for mishandling a

MADRID 00000921 002.2 OF 002

November 2007 radioactive leak at its Asco I nuclear power plant in Tarragona. Sebastian said the MITC would open an investigation next month to validate CSN's findings that Endesa committed a "grave error of the maximum degree" by not detecting the leak until March 2008 and then waiting nearly a month to report it to CSN. CSN has recommended that MITC fine Endesa between 9 and 22.5 million euros (US\$13-33 million). Sebastian noted that his ministry has up to three years to impose the fine, but he intends to act quickly. (Comment: The Asco leak and Endesa's mishandling of it are likely to increase public skepticism over calls to expand nuclear power. A recent opinion poll indicated that 48% of the Spanish public is against the expansion of nuclear power while 40% favors expansion. The Zapatero government plans to close existing plants as the end of their expected life spans are reached and does not plan to approve new ones, although concerns over electricity cost and climate change have prompted calls for a reconsideration of this policy.) (Expansion, 8/20; Cinco Dias, 8/20; El Mundo, 8/18)

FCC Buys Babcock & Brown Wind Farms for 780M Euros

¶ 16. (U) Barcelona-based FCC, one of Spain's largest construction companies, has agreed to acquire the Australian firm Babcock and Brown's Spanish wind energy assets for 780 million euros (\$1.2 billion). FCC's acquisition, part of a 4 billion-euro initiative to diversify into renewable energy, energy efficiency and waste-to-power technologies, includes fourteen wind parks with a combined capacity of 421 megawatts (MW), and an additional 45 MW currently under construction. This is about 3% of Spain's total wind power capacity. A new business unit, FCC Energía, will manage the newly acquired assets, which the company says it expects to provide operating margins significantly higher than those of its core business. (Comment: FCC is following major construction companies Acciona and ACS in diversifying into renewable energy.) (El Mundo, 8/21; Bloomberg, 8/21; FCC press release 8/21)
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